FASAB
THE FEDERAL ACCOUNTING STANDARDS ADVISORY BOARD

# OMNIBUS AMENDMENTS

AMENDING STATEMENTS OF FEDERAL FINANCIAL ACCOUNTING STANDARDS 38, 49, AND TECHNICAL BULLETIN 2011-1

**Statement of Federal Financial Accounting Standards**

**Exposure Draft**

Written comments are requested by September 21, 2023

August 22, 2023

## THE FEDERAL ACCOUNTING STANDARDS ADVISORY BOARD

The Secretary of the Treasury, the Director of the Office of Management and Budget (OMB), and the Comptroller General of the United States established the Federal Accounting Standards Advisory Board (FASAB or "the Board") in October 1990. FASAB is responsible for promulgating accounting standards for the United States government. These standards are recognized as generally accepted accounting principles (GAAP) for the federal government.

Accounting standards are typically formulated initially as a proposal after considering the financial and budgetary information needs of citizens (including the news media, state and local legislators, analysts from private firms, academe, and elsewhere), Congress, federal executives, federal program managers, and other users of federal financial information. FASAB publishes the proposed standards in an exposure draft for public comment. In some cases, FASAB publishes a discussion memorandum, invitation for comment, or preliminary views document on a specific topic before an exposure draft. A public hearing is sometimes held to receive oral comments in addition to written comments. The Board considers comments and decides whether to adopt the proposed standards with or without modification. After review by the three officials who sponsor FASAB, the Board publishes adopted standards in a Statement of Federal Financial Accounting Standards. The Board follows a similar process for Statements of Federal Financial Accounting Concepts, which guide the Board in developing accounting standards and formulating the framework for federal accounting and reporting.

Additional background information and other items of interest are available at www.fasab.gov:

- Memorandum of Understanding among the Government Accountability Office, the Department of the Treasury, and the Office of Management and Budget, on Federal Government Accounting Standards and a Federal Accounting Standards Advisory Board
- Mission statement
- Documents for comment
- Statements of Federal Financial Accounting Standards and Concepts
- FASAB newsletters



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THE FEDERAL ACCOUNTING STANDARDS ADVISORY BOARD

August 22, 2023

TO: ALL WHO USE, PREPARE, AND AUDIT FEDERAL FINANCIAL INFORMATION

The Federal Accounting Standards Advisory Board (FASAB or "the Board") requests your comments on the exposure draft of a proposed Statement of Federal Financial Accounting Standards titled *Omnibus Amendments, Amending Statements of Federal Financial Accounting Standards 38, 49, and Technical Bulletin 2011-1*. Specific questions for your consideration appear on pages 3, but you are welcome to comment on any aspect of this proposal. If you do not agree with specific matters or proposals, your responses will be most helpful to the Board if you explain the reasons for your positions and any alternatives you propose.

Responses are requested by September 21, 2023.

All comments received by FASAB are considered public information. Those comments may be posted to FASAB's website and will be included in the project's public record.

Please provide your comments by email to fasab@fasab.gov. We will confirm receipt of your comments. If you do not get a confirmation, please contact our office at 202-512-7350 to determine if your comments were received. If you are unable to email your responses, please call (202) 512-7350 to make alternate arrangements.

We may hold one or more public hearings on any exposure draft. No hearing has yet been scheduled for this exposure draft. FASAB will publish notice of the date and location of any public hearing on this document in the Federal Register and in its newsletter.

Sincerely,

George A Scott

George A. Scott
Chair

# EXECUTIVE SUMMARY

## WHAT IS THE BOARD PROPOSING?

This proposal would:

- retain the requirement to report oil and gas and other natural resource information as required supplementary information (RSI) by rescinding paragraphs 6 and 31 of Statement of Federal Financial Accounting Standards (SFFAS) 38, *Accounting for Federal Oil and Gas Resources,* and paragraphs 5 and 31 of Technical Bulletin (TB) 2011-1, *Accounting for Federal Natural Resources Other Than Oil and Gas, and*
- remove the "where available" exception in paragraph 24b of SFFAS 49, *Public-Private Partnerships: Disclosure Requirements*.

## HOW WOULD THIS PROPOSAL IMPROVE FEDERAL FINANCIAL REPORTING AND CONTRIBUTE TO MEETING THE FEDERAL FINANCIAL REPORTING OBJECTIVES?

SFFAS 38 and TB 2011-1 indicate that the Board intended to transition the reporting requirements in SFFAS 38 and TB 2011-1 from RSI to either financial statement recognition or note disclosure at a future time. The Board proposes that the reporting requirements remain as RSI. The Board believes that federal oil and gas resources represent federal assets and accounting for and reporting information as RSI enhances accountability for and stewardship over assets of the federal government.

The "where available" exception provided in paragraph 24b of SFFAS 49, which was meant exclusively for when the amounts of non-federal partner's funding are unavailable, has been inappropriately applied. The Board proposes removing the exception in paragraph 24b to avoid potential misapplication of paragraph 24b to the amounts of federal funding and other cash flow disclosure requirements and to revise SFFAS 49 to no longer allow reporting entities to exclude the amounts of non-federal funding if the information is unavailable. The Board believes that, because of risks involved in entering into public-private partnerships (P3s), disclosures regarding P3s are needed. Such disclosures foster accountability and improve understanding of (1) the general risks inherent in P3 arrangements by revealing their purpose, objective, funding, operational and financial structures; and (2) contractual risks of loss such as early termination requirements.

## MATERIALITY

The provisions of this Statement need not be applied to information if the effect of applying the provision(s) is immaterial.[1] A misstatement, including omission of information, is material if, in light of surrounding facts and circumstances, it could reasonably be expected that the judgment of a reasonable user relying on the information would change or be influenced by the correction or inclusion of the information. Materiality should be evaluated in the context of the specific reporting entity. Determining materiality requires appropriate and reasonable judgment in considering the specific facts, circumstances, size, and nature of the misstatement.

[1] Refer to Statement of Federal Financial Accounting Concepts 1, *Objectives of Federal Financial Reporting*, chapter 7, titled *Materiality*, for a detailed discussion of the materiality concepts.

Consequently, after quantitative and qualitative factors are considered, materiality may vary by financial statement, line item, or group of line items within an entity.

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# QUESTIONS FOR RESPONDENTS

The Federal Accounting Standards Advisory Board (FASAB or "the Board") encourages you to become familiar with all proposals in the Statement before responding to the questions for respondents below. In addition to the questions below, the Board also welcomes your comments on other aspects of the proposed Statement. Because FASAB may modify the proposals before a final Statement is issued, it is important that you comment on proposals that you favor as well as any that you do not favor. Comments that include the reasons for your views are especially appreciated.

The Board believes that this proposal would improve federal financial reporting and contribute to federal financial reporting objectives. The Board has considered the perceived costs associated with this proposal. In responding, please consider the expected benefits and perceived costs and communicate any concerns that you may have regarding implementing this proposal.

The questions in this section are available in a Microsoft Word file for your use at https://www.fasab.gov/documents-for-comment/. Your responses should be sent to fasab@fasab.gov. If you are unable to respond by email, please contact us at (202) 512-7350.

All responses are requested by September 21, 2023.

Q1. Statement of Federal Financial Accounting Standards (SFFAS) 38, *Accounting for Federal Oil and Gas Resources*, requires the value of the federal government's estimated petroleum royalties from the production of federal oil and gas proved reserves be reported as required supplementary information (RSI) in a schedule of estimated federal oil and gas petroleum royalties by the component entity that is responsible for collecting royalties. TB 2011-1, *Accounting for Federal Natural Resources Other than Oil and Gas*, applies the reporting requirements in SFFAS 38 to federal natural resources other than oil and gas and requires reporting as RSI the value of the federal government's estimated royalties and other revenue from federal natural resources that are (1) under lease, contract, or other long-term agreement and (2) reasonably estimable as of the reporting date. It was the Board's intent when issuing SFFAS 38 and TB 2011-1 that the information required would eventually transition from presentation as RSI to basic information after three years. The Board is now proposing that the information required in SFFAS 38 and TB 2011-1 continue to be reported as RSI. Please refer to basis for conclusions paragraphs A1-A15.

**Do you agree, partially agree, or disagree with the Board's decision? Please provide the rationale for your answer.**

Q2. The Board proposes removing the "where available" exception in paragraph 24b of SFFAS 49, *Public-Private Partnerships: Disclosure Requirements*. The Board intended for paragraph 24b to allow exclusion of the amounts of non-federal partner funding in situations where such information was not available. The Board proposes revising SFFAS 49 to require disclosure of the amounts of non-federal partner funding in all circumstances and to avoid potential misapplication of paragraph 24b to the amounts of federal funding and other cash flow disclosure requirements. Please refer to basis for conclusions paragraphs A16-A19.

**Do you agree, partially agree, or disagree with the Board's proposal to remove the exception in paragraph 24b? Please provide the rationale for your answer.**

# PROPOSED STANDARDS

## SCOPE

1. This Statement applies to federal entities that present general purpose federal financial reports (GPFFRs), including the consolidated financial report of the U.S. Government (CFR), in conformance with generally accepted accounting principles (GAAP), as defined by paragraphs 5 through 8 of Statement of Federal Financial Accounting Standards (SFFAS) 34, *The Hierarchy of Generally Accepted Accounting Principles, Including the Application of Standards Issued by the Financial Accounting Standards Board*.

2. This Statement amends the following guidance:

    a. SFFAS 38, *Accounting for Federal Oil and Gas Resources*

    b. Technical Bulletin (TB) 2011-1, *Accounting for Federal Natural Resources Other Than Oil and Gas*

    c. SFFAS 49, *Public-Private Partnerships: Disclosure Requirements*

## AMENDMENTS TO SFFAS 38 AND TB 2011-1

3. This paragraph rescinds paragraphs 6 and 31 of SFFAS 38:

    ~~6. It is the Board's intent that the information required by this Statement transition to basic information after being reported as RSI for a period of three years. Prior to the conclusion of the three-year RSI period, the Board plans to make a determination as to whether the information will transition to basic information as financial statement recognition or note disclosure. This Statement will remain in effect until such time a determination is made.~~

    ~~31. It is the Board's intent that the information required by this Statement transition to basic information after being reported as RSI for a period of three years. Prior to the conclusion of the three-year RSI period, the Board plans to make a determination as to whether the information will transition to basic information as financial statement recognition or note disclosure. This Statement will remain in effect until such time a determination is made.~~

4. This paragraph rescinds paragraphs 5 and 31 of TB 2011-1:

    ~~5. It is the Board's intent that the information required by SFFAS 38 transition to basic information after being reported as RSI for a period of three years. Prior to the conclusion of the three-year RSI period, the Board plans to make a determination as to whether the information required by SFFAS 38 will transition to basic information as financial statement recognition or note disclosure. It is anticipated that a similar determination would be made for natural resources other than oil and gas based on agencies' experiences implementing the guidance in this technical bulletin.~~

    ~~31. It is the Board's intent that the information required by SFFAS 38 transition to basic information after being reported as RSI for a period of three years. Prior to the conclusion of~~

~~the three-year RSI period, the Board plans to make a determination as to whether the information required by SFFAS 38 will transition to basic information as financial statement recognition or note disclosure. It is anticipated that a similar determination would be made for natural resources other than oil and gas based on agencies' experiences implementing the guidance in this technical bulletin.~~

## AMENDMENTS TO SFFAS 49

5. This paragraph amends paragraph 24b of SFFAS 49 as follows:

   24b. A description of federal and non-federal funding of the P3 over its expected life, including the mix and~~, where available,~~ the amounts of such funding. ~~For any amounts that are not available, the disclosures should indicate such.~~

## EFFECTIVE DATE

6. The requirements of this Statement are effective upon issuance.

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| The provisions of this Statement need not be applied to information if the effect of applying the provision(s) is immaterial. Refer to Statement of Federal Financial Accounting Concepts 1, *Objectives of Federal Financial Reporting*, chapter 7, titled *Materiality*, for a detailed discussion of the materiality concepts. |

# APPENDIX A: BASIS FOR CONCLUSIONS

This appendix discusses some factors considered significant by Board members in reaching the conclusions in this Statement. It includes the reasons for accepting certain approaches and rejecting others. Individual members gave greater weight to some factors than to others. The standards enunciated in this Statement—not the material in this appendix—should govern the accounting for specific transactions, events, or conditions.

This Statement may be affected by later Statements. The FASAB Handbook is updated annually and includes a status section directing the reader to any Statements that affects this Statement. Within the text of the Statements, the authoritative sections are updated for changes. However, this appendix will not be updated to reflect subsequent changes. The reader can review the basis for conclusions of amending Statements for the rationale for each amendment.

## PROJECT HISTORY

### OIL AND GAS AND OTHER NATURAL RESOURCES REPORTING

A1. The Federal Accounting Standards Advisory Board (FASAB or “the Board”) issued SFFAS 38, *Accounting for Federal Oil and Gas Resources,* on April 13, 2010. SFFAS 38 requires the value of the federal government’s estimated petroleum royalties from the production of federal oil and gas proved reserves to be reported in a schedule of estimated federal oil and gas petroleum royalties. In addition, SFFAS 38 requires the value of estimated petroleum royalty revenue designated for others be reported in a schedule of estimated federal oil and gas petroleum royalties to be distributed to others, as part of a discussion of all significant federal oil and gas resources under management of the entity.

A2. On July 6, 2011, FASAB issued SFFAS 41, *Deferral of the Effective Date of SFFAS 38*, which deferred the effective date of SFFAS 38 from periods beginning after September 30, 2011, to periods beginning after September 30, 2012.

A3. Also on July 6, 2011, FASAB issued Technical Bulletin (TB) 2011-1*, Accounting for Federal Natural Resources Other Than Oil and Gas,* which applies the general principles in SFFAS 38 and requires federal entities to report as required supplementary information (RSI) the value of the federal government’s estimated royalties and other revenue from other federal natural resources that are (1) under long-term lease, long-term contract, or other long-term agreement and (2) reasonably estimable as of the reporting date.

A4. At the time SFFAS 38 and TB 2011-1 were issued, the Board believed that the estimated federal royalty share of proved oil and gas reserves and recoverable reserves of other natural resources could be reliably estimated and converted to monetary terms and, therefore, could be presented as basic information. However, members wanted to gather more information about the reliability of the valuation methodology before the Board made a final decision on whether the information should be recognized on the face of the financial statements or disclosed in the notes to the financial statements. The Board agreed to require that the information be reported as RSI for three years. Before the end of the three-year RSI period, the Board planned to decide whether the information would transition to basic information as financial statement recognition or note disclosure. The Board acknowledged that new information might become available that would warrant continued reporting as RSI.

A5. Between 2012 and 2014, FASAB removed the reassessment of the SFFAS 38 reporting requirements as a potential Board project due to other priorities.

A6. In August 2022, the Board revisited the open-ended reporting requirement in paragraphs 6 and 31 of SFFAS 38 and paragraphs 5 and 31 of TB 2011-1. The Board acknowledged its original intent to transition natural resources reporting from RSI to basic information after three years was based on the belief that over time there would be improvements in certain measurement approaches for valuing royalties from oil and gas proved reserves and recoverable reserves of other natural resources. However, based on discussions with the Department of the Interior, measurement challenges remain.

A7. Interior’s valuation methodology for oil and gas petroleum royalties from federal onshore and offshore oil and gas proved reserves is based on oil and gas proved reserve estimates published by the Department of Energy’s Energy Information Administration (EIA). Because the EIA published national oil and gas proved reserve estimates are developed from well operators’ estimated proved reserves and are not subject to audit, verifying the proprietary information would be challenging.

A8. In addition, the EIA oil and gas proved reserve estimates are not separated between federal and non-federal, and, therefore, Interior estimates the federal portion of each state’s oil and gas proved reserves using production on federal land. However, production on federal land only provides an indirect correlation in the valuation methodology and thereby increases the uncertainties about the methodology.

A9. The valuation methodology for estimating the federal royalty share of proved oil and gas reserves assumes 100 percent of the oil and gas proved reserves will be produced over time. Uncertainties about future production affect this assumption, resulting in additional uncertainties.

A10. The Board also considered the oil and gas price fluctuations that may result in significant changes in the asset value of future royalty revenues between reporting periods and the resulting diminished meaningfulness of asset value to users.

A11. Coal is the only significant federal natural resources reported under the requirements of TB 2011-1. The estimation methodology for royalties from federal coal recoverable reserves relies on assumptions that result in uncertainties and challenges:

a. The amount of coal in a federal lease is difficult to estimate because the geologic model is based on wide-spaced exploration drilling and necessitates the use of geologic assumptions that may not be accurate.

b. Estimates of recoverable reserves change when assumptions, such as price and mining technology, change.

c. The methodology is based on current year production and projected future production until the reserves are 100 percent depleted, resulting in additional uncertainties.

d. Coal price fluctuations may result in significant changes in the asset value of future royalty revenue projections between reporting periods.

A12. One objective of the Board's reexamination of existing standards project is to eliminate or revise unnecessary requirements to reduce reporting burden. The Board believes that changing the reporting requirements under SFFAS 38 and TB 2011-1 to basic information may add to reporting burden without yielding reporting benefits.

A13. The Board acknowledged that actual royalties collected and distributed are currently recognized and disclosed in accordance with SFFAS 7, *Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting.* The Board does not believe there is a further benefit to recognize future royalties as basic information.

A14. The Board noted that the Financial Accounting Standards Board and the U.S. Securities and Exchange Commission require reporting of oil and gas reserve quantities and asset value as RSI rather than as basic information.

A15. Considering the significant measurement uncertainties and associated challenges, the Board believes that the potential benefits do not justify the cost and added burden to increase the reliability of the oil and gas and other natural resources information for basic information presentation; therefore, the Board agreed to propose that the SFFAS 38 and TB 2011-1 reporting requirements remain as RSI.

## PUBLIC-PRIVATE PARTNERSHIPS

A16. At the October 2022 Board meeting, staff briefed the Board concerning SFFAS 49, *Public Private Partnerships: Disclosure Requirements*, implementation challenges requiring attention. The implementation challenges were a result of information gathering meetings with two federal Inspectors General, a public accounting (audit) firm, and two financial policy accountants to help identify challenges they saw requiring attention. Additionally, staff conducted agency one-on-one meetings as well as training and outreach sessions to also help identify potential impediments to SFFAS 49 implementation.

A17. As a result, staff identified 15 implementation challenges (some of which were deemed beyond the Board's control or overlapping with other noted challenges) that could benefit from additional Board guidance; that is, amendments, interpretations, and/or technical guidance. In December 2022, staff assembled an SFFAS 49 public-private partnership (P3) implementation task force to further study implementation issues, such as preparer or auditor challenges, and related Board action that might be necessary in light of said challenges. At a January 2023 meeting, the task force concluded that an amendment to paragraph 24b might be beneficial.

A18. Paragraph 24b requires "a description of federal and non-federal funding of the P3 over its expected life, including the mix and, where available, the amounts of such funding. For any amounts that are not available, the disclosures should indicate such." Task force representatives noted that paragraph 24b of SFFAS 49, which was meant exclusively to allow reporting entities to exclude the amounts of non-federal partner's funding for situations when such information is unavailable, has been inappropriately applied by some reporting entities to exclude reporting of (1) federal partner funding estimates and (2) cash flows required by paragraphs 24c and 24d. Further, task force representatives noted that non-federal partner funding information may have been excluded without reasonable efforts to obtain or estimate the funding information.

A19. The Board agreed to remove the "where available" exception in paragraph 24b to require disclosure of the amounts of non-federal partner funding in all circumstances, regardless of availability, and to avoid potential misapplication of paragraph 24b to the amounts of federal funding and other cash flow disclosure requirements. The Board believes that disclosure of such information is important to inform users as to the amount of funding attributable to each partner within a P3. That is, such amounts invested can affect a user's understanding of the relative risks each partner is undertaking, the relative economic incentives they each bear or share, as well as the overall reasonableness of the P3's expected life. The Board recognizes that non-federal funding information may not always be readily available from the non-federal partners, but reporting entities should be able to estimate it in such circumstances.

# APPENDIX B: ABBREVIATIONS

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|---|---|
| EIA | Energy Information Administration |
| FASAB | Federal Accounting Standards Advisory Board |
| P3 | Public-Private Partnership |
| RSI | Required Supplementary Information |
| SFFAS | Statement of Federal Financial Accounting Standards |
| TB | Technical Bulletin |

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